

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC PRIORITY 1379

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C O N F I D E N T I A L LONDON 06889

E.O. 11652: GDS

TAGS: EMIN, ETRD, MY

SUBJECT: TIN -- TECHNICAL PROBLEM PUSHES PRICE INTO

ITC "MUST SELL" RANGE

1. INTERNATIONAL TIN COUNCIL (ITC) BUFFER STOCK MANAGER (DE KONING) BROUGHT TO ATTENTION OF CONSUMER GROUP MEETING MORNING OF MAY 5 A TECHNICAL PROBLEM INVOLVING SALES OF BUFFER STOCK TIN ON THE PENANG MARKET. PROBLEM RESULTED IN PENANG PRICE EXCEEDING ITC CEILING OF 1100 MALAYSIAN DOLLAR IN EARLIER TRADING. UNDER ARTICLE 25 OF PRESENT AGREEMENT, UNLESS COUNCIL (MEETING MAY 5 ON OTHER MATTERS) DECIDES OTHERWISE, BUFFER STOCK MUST OFFER TIN FOR SALE UNTIL PRICE EITHER FALLS BELOW CEILING OR BUFFER STOCK SUPPLIES EXHAUSTED. DE KONING EXPRESSED CONCERN THAT, SINCE IT GENERALLY BELIEVED ITC COULD EASILY DEFEND PENANG PRICE SO LONG AS BUFFER STOCK HAS METAL, THIS PENANG QUOTATION WILL BE READ AS SIGN OF BUFFER STOCK EXHAUSTION. THIS COULD RESULT IN SPECULATORS PUSHING PRICE WELL UP ON LME, THEREBY PUTTING STRAIN ON ITC RESOURCES.

2. DE KONING THOUGHT HE MIGHT HEAD OFF EXCESSIVE SPEC-

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ULATION BY GETTING WORD AROUND TRADE THAT ITC STILL HAD

TIN. HOWEVER, HE STRONGLY ADVISED AGAINST RECOMMENDATION BY FRG THAT ITC PUT OUT SPECIAL COMMUNIQUE SETTING FORTH PRESENT STOCK LEVEL.

3. PROBLEM AROSE OUT OF A SPECIAL ARRANGEMENT ITC HAS WORKED OUT FOR SELLING TIN ON PENANG MARKET. MALAYSIA HAS NOT YET SUCCEEDED IN CREATING A TRUE TERMINAL MARKET SIMILAR TO LME HERE, AND WHILE BUFFER STOCK CAN BUY IN DEFENSE OF MINIMUM WITHOUT DIFFICULTY, IT CAN SELL ONLY THROUGH ARRANGEMENT WITH THE TWO MALAYSIAN SMELTERS. SINCE ONLY MINES ARE ALLOWED TO SELL ON THE PENANG MARKET, THIS ARRANGEMENT IS EXTRA-LEGAL (BUT CONDONED BY GOM).

4. SOME TIME AGO, DE KONING WAS ABLE TO HEAD OFF PROBLEM WITH SMELTERS. THEY TOLD HIM (PRESUMABLY AT BEGINNING OF PRESENT SPATE OF SELLING) THAT THEY WERE UNDER NO OBLIGATION TO ACCEPT SELL ORDERS IF IT WERE NOT IN INTEREST OF MINES TO DO SO. DE KONING APPARENTLY REJECTED THIS IMPRECISE FORMULATION AS UNSATISFACTORY, BUT WAS ABLE TO WORK OUT AN ARRANGEMENT WHEREBY SELL ORDERS WOULD BE ACCEPTED JUST UNDER CEILING PROVIDED THAT LME PRICE WAS NOT ABOVE THE PENANG PRICE. SYSTEM WORKED WELL FOR A TIME, AS WITNESSED BY PENANG PRICE REMAINING JUST BELOW CEILING FOR LAST FEW DAYS.

5. WHEN PENANG QUOTATIONS ARRIVED SHOWING CEILING BREACHED, DE KONING TELEPHONED HIS CONTACT (MORNING OF MAY 5) IN PENANG, AND WAS INFORMED PRICE RISE WAS UNINTENTIONALLY ALLOWED THROUGH A MISCALCULATION.

6. SEVERAL CONSUMERS EXPRESSED GRAVE CONCERN ABOUT UNRELIABILITY OF PENANG TRADING SYSTEM, QUESTIONING, INTER ALIA, WHETHER BUFFER STOCK SHOULD NOT SHIFT MORE OF ITS OPERATIONS TO THE LME, VALUATION OF PRICE RANGE IN MALAYSIAN DOLLARS, AND WHETHER DEVELOPMENT OF A PENANG TERMINAL MARKET SHOULD BE ENCOURAGED. DE KONING, HOWEVER, DEFENDED PENANG AS -- WITH ALL ITS IMPERFECTIONS -- A BETTER MARKET FOR ITC TRADING THAN THE LME (HE TRADES IN BOTH). HE THOUGHT DEVELOPMENT OF A TERMINAL MARKET SHOULD BE ENCOURAGED AND NOTED THAT VALUA-

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TION IN MALAYSIAN DOLLARS, A VERY FIRM CURRENCY, HAD WORKED WELL. HE STRONGLY RECOMMENDED AGAINST THE COUNCIL INTERVENING IN PROBLEM AT PRESENT TIME, BUT AGREED GOM AND ITC MIGHT QUIETLY WORK TOGETHER TO AVOID FUTURE PROBLEMS SUCH AS THIS ONE.

7. NOTE: BECAUSE OF SENSITIVITIES INVOLVED IN US OBSERVER RELATIONSHIP TO ITC, STRONGLY ADVISE AGAINST

DISCUSSION OF PROBLEM ON BASIS THIS CABLE OUTSIDE USG
CHANNELS. WE, OF COURSE, ANTICIPATE THAT MUCH OF ABOVE
WILL BECOME PUBLIC KNOWLEDGE FAIRLY RAPIDLY.

ARMSTRONG

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